

COCOA BOARD OF PNG (CBPNG) SPECIAL REPORT



Way Forward

Message by CBPNG Chief Executive Officer

As we end this year and look forward to the new year the Board and the Management of the Cocoa Board of PNG take this opportunity to thank the national and provincial governments, development partners, donors partners, private sector, industry stakeholders and the cocoa farmers of this country for your perseverance and support over the years. With the level of support from each and one of you, the board and management is now able to do what it was not able to do over the last 10 years.

Despite the concerted efforts and outlay of resource commitments, many more challenges remain ahead of us. More resources and more concerted efforts are required from us to minimise and contain the industry issues that continue to affect the industry and influence or slow-down the way we want to do business in the industry. Important industry issues include cocoa pod borer (CPB), aged cocoa tree population, low productivity, shortage of certified seed & seedling materials, inaccessibility and the associated high transport and freight costs of moving cocoa to central and export markets. Other industry challenges, though lies outside our spheres of influence is associated with world market conditions.

In 2014, Cocoa Board initiated the process of consultation and dialogue with the industry as a way going forward in identifying and addressing industry issues and challenges. Out of this process, the board was able to draw its first ever Cocoa Industry Strategic Plan (2016-2025) that provides a business plan and charts the road map of the industry in the next 10 years.

Cocoa Board of PNG has instituted the Board after 8 years. This followed the Functional & Expenditure Review (FER) in to the sector and its findings and recommendations in 2015. This is welcome news for the industry as the Board will now provide the necessary compliance, guidance, direction and stewardship required for the industry, and especially to oversee the implementation of the Industry Strategic Plan.

A major shift in the functions of R&D of the industry is for subsuming cocoa research and extension to Cocoa Board as recommended by the FER is captured and catered for under the Industry Strategic Plan. This process is being progressed under the direction of the Board.

On the international scene, PNG has been ratified full membership to the International Cocoa Organization after many years as an observer or an Ad Hoc member. This now enables PNG participate and vote on important deliberations and decisions like fine & flavour status and regional project allocations.

With the support of the government, the board has initiated a number of key projects in the last 3 years to address and at the same time drive the growth of the industry. The four on-going PIP funded projects are:

- District Cocoa Nurseries Project,
- Remote Area Cocoa Freight Subsidy Scheme,
- Post-Harvest and Cocoa Quality, and
- Quality Assurance & Market Promotion.

Cocoa Board through these government funded projects is partnering and working through cooperative arrange-



Mr Boto Gaupu

ments and set-ups and organized grower groups as opposed to individual farmers. The lower Watut experience is testimony and is in line with group based marketing concept using co-operatives as a one stop shop where extension, training, processing, quality control and marketing issues can all be addressed with the objective of exerting bargaining power, minimizing costs, achieving optimal production output and reaping the economies of scale.

Cocoa Board's mandate is to control and regulate the growing, processing and marketing of cocoa in the country.

The Board is responsible for ensuring that there is good governance in maintaining the Cocoa Act by ensuring that the regulations are maintained at all times by those involved in the industry. Cocoa Board of PNG carries out inspection & quality control, training on best practise on all cocoas intended for exports.

To this effect, we have stepped up operations and funding for this based on the rationale that this is where our core business lies. In the last 2 years more than 60% of the budget has been allocated to inspection and quality control. With more than 14 cocoa growing provinces in the country and with highlands provinces now in to cocoa growing coverage too has increased.

Four fully fledged offices have recently been opened in West New Britain, Oro, Morobe and West Sepik provinces in the last 2 years. In roads for cocoa development in non-traditional but high potential areas like Karamui, Jiwaka, Goroka, Aitape, Milne Bay, Tufi, Kerema and Abau is being pursued.

With a lot of support from the government, lead government agencies, development partners, private sector and farmers, there is now renewed interest, optimism and confidence in the industry. This is not only because of increased prices but more importantly because of the resilience by the farmers as a form of employment and income and more so due to the fact that there is now good support and availability of service to them compared to before.

With the Board in place, it will provide the necessary policy directions to guide the management to elevate on what it is doing and bring it to new height

Finally, at the backdrop of an optimistic world market condition for cocoa, good government and private sector support and investment to the industry, greater optimism and confidence in the industry, the industry is now on a path of greater clarity, a greater determination and a renewed commitment to providing not only increased and improved but an exceptionally better service to meet the aspirations of our people in the industry.



Overview of the Cocoa Board of PNG

COCOA is now among the three top export crops of PNG earning an average annual revenue of K300 million from 36,000 tonnes of processed cocoa beans.

All this from approximately K37.8 million kina invested into the industry by the national government so far.

This result is reflective of what is expected of the regulator, the Cocoa Board of PNG (CBPNG), according to its Cocoa Industry Strategic Plan (CISP) and the development objectives of the Government of PNG (GoPNG).

And that is to reach a production tally of 310,000 by 2030.

The objectives of GoPNG are as expressed in the National Agricultural Development Plan (NADP), the PNG Development Strategic Plan (PNG-DSP) and the PNG Vision 2050.

This achievement is fully owed to several innovative development programs initiated by CBPNG that have spanned three and half years beginning in 2013.

The industry, however, has not always fared this well.

Once described as an 'ailing' industry on the verge of collapse, cocoa took a turn for the better under the direction of a new credible CBPNG management team, put together by current Chief Executive Officer Mr Boto Gaupu, who took office in late 2012.

The management team was assembled through the normal recruiting

process and a restructure was soon approved allowing CBPNG to increase its man-power to 76 permanent staff.

With the new management and increased man-power, CBPNG through concerted efforts with its stakeholders secured a rescue package of K6.1 million from the national government to revive the industry.

This then allowed for CBPNG to embark on its development programs which have yielded results that seemed unachievable only three years ago.

The development programs currently undertaken by CBPNG include Remote Area Cocoa Freight Subsidy project (freight project), District Cocoa Nurseries project (nursery project), Cocoa Quality and Market Promotion and Productive Partnership in Agriculture Project (PPAP).

The freight and nursery projects complements an intervention project called the provincial government and district funded nurseries and seedling distribution program and is managed by the agency's Project Management Unit (PMU), which is funded by GoPNG and the 12 interested districts.

Cocoa quality and market promotion is under the custodian of the Quality Assurance Section which comes under CBPNG's Fields Services Division and is funded by the agency.

PPAP is funded by the World Bank (WB), International Fund for Agricultural Development (IFAD) and the European Union (EU) with its own management but is overseen by CBPNG and its functions are; institutional and capacity building, produc-

tive partnership and market access infrastructure.

Like every other industry, there are constraints affecting the cocoa industry, and they are the cocoa pod borer (CPB), declining small-holder productivity, age and senility of cocoa plantings, poor transport and market infrastructure, decline in government extension services, poor credit services, disputes on land ownership, and smoke tainted cocoa beans.

The development programs have been addressing these challenges revitalizing the industry and this will be explained in this report.

Cocoa Production and Cocoa Exort Revenue

COCOA production has averaged 36,000 tonnes over the last three years and is expected to increase in the next three years taking into consideration the current nursery project by the CBPNG PMU and PPAP.

Statistics from CBPNG's Economics Division places cocoa productions for the 2013/14, 2014/15 and 2015/2016 cocoa years at 35,549, 35,118 and 37,761 tonnes respectively.

The increase in production experienced in the 2015/2016 year is a direct result of the CBPNG development programs particularly the nursery and freight subsidiary projects.

Cocoa export revenue over the last three cocoa years ending September averaged K300 million with the 2013/14, 2014/15 and 2015/2016 cocoa years recording K241 million,



K281 million and K337 million respectively.

The increase in the latest cocoa year is directly due to higher export volumes and higher cocoa prices on the world market.

District Nursery Projects

THIS project comes under the PMU and is aimed at alleviating some of the constraints facing the industry and to revitalize it.

The constraints being addressed are; CPB, age and senility of cocoa plantings and the decline in government extension services.

Methods taken to alleviate the constraints are the supplying of seeds and seedlings to address the issue of aged crops, ensuring the availability of clonal cocoa plants that can withstand CPB, and the provision of vital extension and training to cocoa growers.

Because of the limited funds the project receives from GoPNG, the projects have gone into partnerships with districts.

This cocoa year, the project received K7 million under GoPNG's Public Investment Program (PIP) and to rely on these funds alone will result in it being thinly spread across the 12 districts the project has partnered with causing little or no impact.

Thus to cause impact and achieve tangible results the CBPNG through this project partnered with Maprik, Yangoru-Saussia, Madang, Middle-Ramu, Kokopo, Gazelle, Aitape-Lumi, Markham, Sohe, North Bougainville and Wewak districts.

The nursery projects in each of the district will be taken over by the district administrations of each of the districts once its life-span ceases.

Under the project well over 600,000 trees have been planted on close to 1,000 hectares of land and an additional 500,000 seedlings are being raised in the various nurseries.

CBPNG's economic section projects that once the 600,000 trees reach maturity, the trees will be contributing on average 300 tonnes of cocoa seedlings earning an export revenue of K2.7 million annually.

Remote Area Freight Subsidy Project

THE objective of the project is to alleviate the issues of poor transporta-

tion and market inaccessibility and the escalating freight costs growers are currently facing in accessing their markets.

It (project) is doing this by providing market access to high potential but inaccessible remote districts in the country move cocoa to central markets. An estimated 10,000 to 15,000 tonnes of cocoa valued at K30 million to K40 million (2014 price) is stranded in remote areas of the country.

This project is proving to be effective in ensuring extension services to the cocoa growers are facilitated.

The project is also promoting and supporting a continuing development of a sustainable cocoa industry in the rural and inaccessible district. It is a stimulus package that can create economies scale for sustained growth.

Instead of using this funds to beef up prices which obviously will benefit the already well off farmers, processors and exporters CBPNG has gone for freight subsidy which is now yielding very positive results.

Cumulative results over the last 3 years shows that a total of over 10,700 tons of cocoa were moved to central & export markets, generating an export revenue of K101 million.

This translates to K73 million, money that has been transmitted direct to the farmers in the districts.

With the current threat by CPB, the project can be seen as a market-ing program to have a 'pull-effect' on production.

Cocoa Quality and Market Promotion

THIS development program is two-fold in that it encourages small-holder cocoa growers to explore alternative market options and encourages them to produce quality cocoa beans to be competitive in these markets.

It falls under the Export and Quality Assurance section of CBPNG's Fields and Services Division of.

The main responsibility of the division is the issuing of licenses to exporters, dry bean dealers, processors and fashioning strategies to maintain and ensure that the quality of locally-produced cocoa beans are up to world standards.

Importantly it also ensures exporters are in compliance to the Cocoa Act 1981 and Cocoa Regulations 1982.

Its responsibility under this program extends to the field of marketing.



Pictured is a Solar Combination dryer. The dryer uses both the solar energy and wood to process cocoa beans.

In order to achieve its marketing goals, the section promotes awareness among small-holder growers to form groups such as cooperatives in order to access larger niche markets, instead of the conventional marketing method of selling to local exporters who then export overseas.

This area helps farmers go into the downstream processing of cocoa as well.

The development areas major success is the Papua New Guinea Cocoa and Copra Industry (PNGCCI) and Paradise Foods limited.

The two are both exporters and processors who have added value to the industry by exporting direct to manufacturers. They are also into downstream processing, producing chocolates and other confectionaries for the domestic and export markets.

Productive Partnership in Agriculture Project

PPAP is a Cocoa Board implemented World Bank, IFAD and EU funded cocoa project that has been implemented over the last 6 years in East New

Britain and Bougainville. It has been rolled out to Momase region this year with the project expected to wind-down in June 2019.

PPAP has its own management however CBPNG oversees its operation with the PPAP management reporting to the CBPNG Chief Executive Officer.

The project is also facilitating and providing funding for organized farmers groups who can work with a designated lead partner to rehabilitate their cocoa blocks, carry out CPB management trainings as well as maintain cocoa quality. The farm models being promoted are very conducive for sustainability in the future.



FOR CBPNG, revitalizing the industry is not limited to the development areas in this report as more innovative strategies are being created, in accordance with its strategic plan, the CISP, the MTDS, DSP, and PNG Vision 2050.

The strategies will create avenues for the agency to overcome the challenges it has been facing over the years.

Despite these challenges, thus far, as portrayed, the industry has been faring well under the guidance of the CBPNG.

The agency will continue to expand into new areas to meet the DSP target of 310,000 by 2030. In order to do this, the agency is looking at expanding the development areas to more districts – districts that have no experience of the cocoa industry.

Under the current projects, CBPNG will also be encouraging small holder growers to from more cooperatives to so that they can work in a more organized manner to access services provided by CBPNG and GoPNG, which will in turn increase cocoa production and quality. Other strategies CBPNG is working on to take the industry forward are as follows;

- **Clonal Nurseries and Bud-wood Gardens-** Clonal cocoa is the way for the future and significant investment in new nurseries is necessary as this will provide farmers with clonal seedlings for replanting and clonal bud-wood for rehabilitation of their old cocoa trees. These needs to be established in strategic locations in the cocoa growing provinces for farmers to have access to planting material. In the remote areas and provinces hybrids can still produce the desired result given proper block management [regular pruning, harvesting & fertilizer application etc.] is utilized.
- **Certification-** This is now becoming an important subject in the cocoa trade. It is widely publicised that by 2020 all cocoa bean product will be marketable only if they are certified under any of the certification label currently known such as Fair Trade, Rainforest Alliance and UTZ;
- **Formation of Organized Grower Groups/Cooperatives/SMEs -** It is more beneficial for farmers to work in organized grower groups rather than individually. This makes it easier to tap into services provided by both government and private sector. The added advantage is the bargaining power they can coerce to get better prices as well as utilize the associated economies of scale. There needs to be up-scaling of grower groups into SMEs and entrepreneurship ventures;
- **Partnership and networking-** The Board would like to harness the true meaning of working with productive partner so to create a win-win situation for all. Effective networking is crucial and therefore must be maintained at all times. In additional communication links must also be maintained with all stakeholders for effective service delivery.
- **Use of Service Providers -** Due to capacity issues the Board will by all means utilize genuine and credible service providers who are willing to partner with the Board in delivering services to growers in the remote areas in a timely manner.



CBPNG's Remote Freight Subsidy Project team and a service provider unveiling a new truck for the service provider.



Chart 1. Cocoa Production by Cocoa-Year: 2006/07 - 2015/16

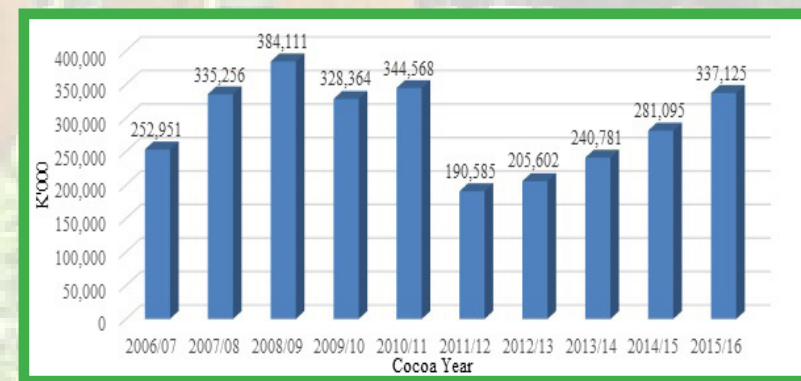


Chart 5. Cocoa Export Revenue by cocoa-year: 2006/07 – 2015/16